



U.S. SENATE COMMITTEE ON

# Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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PLEASE NOTE THE FINAL RECORDED VOTE WAS FOR UNANIMOUS APPROVAL.

For Immediate Release

Tuesday, March 13, 2001

## Committee Unanimously Passes Chairman Grassley's Education Package

WASHINGTON – The Committee on Finance today approved a legislative package from Chairman Chuck Grassley that would help parents save and pay for their children's education, encourage employers to pay tuition for employees hoping to better themselves, and make it easier to earn a degree without securing a lifetime of debt.

"Thomas Jefferson believed an educated people is key to a strong republic," Grassley said. "Our purpose is to promote tax policies that reflect Jefferson's principle. We want to recognize that taxes are universal, a good education should be universal, and therefore the tax code is an ideal way to promote education. The tax code can serve as a student aide."

Grassley said he was pleased to have his first chairman's mark focus on education. The committee unanimously approved his chairman's mark as amended. The mark, called the *Affordable Education Act of 2001*, contains legislative contributions from Grassley and other committee members.

Grassley said the package reflects the priorities witnesses expressed during a Feb. 14 committee hearing on education proposals. First, higher education is becoming less affordable for an increasing number of Americans. A dental student at the University of Iowa provided an example. She plans to specialize so her graduate school debt will be greater than the average, which is \$100,000.

Second, the Senate is interested in increasing its commitment to all levels of education, Grassley said. A record number of senators testified before the Committee on education proposals last month.

Grassley said the Senate's strong interest in acting on education legislation, and President Bush's identification of education as a priority, bode well for legislative success this year. Key elements of the chairman's mark approved today include:

**Removing the limitation on the deductibility of student loan interest.** Grassley led the effort to restore the deduction after Congress totally eliminated it in 1986. Congress reinstated the deduction with a 60-payment limit in 1997; this provision removes the 60-payment limit and adjusts the income limits.

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**Raising the amount that can be contributed to an education saving account from \$500 to \$2,000.** This would help parents save money for their children's higher education. Corporations, unions, charitable organizations, foundations and other entities also could contribute to a child's account. In addition, the committee approved an amendment permitting withdrawals from education savings accounts for kindergarten through 12<sup>th</sup> grade expenses. An amendment eliminated the marriage penalty built into the education savings accounts.

**Making distributions from pre-paid college savings plans and tuition plans tax-free** and permitting consortia of private colleges and universities to offer pre-paid tuition plans. Under current law, states can offer tuition plans to which people contribute money for the higher education expenses of a beneficiary. The earnings are taxed at withdrawal to the beneficiary. Under the chairman's mark, withdrawals would be tax-free.

**Making permanent the tax-free treatment of employer-provided educational assistance.** Educational expenses paid by an employer for its employees are generally deductible to the employer. For employees, employer-paid educational expenses are excluded from gross income if provided under certain assistance plans. The exclusion is set to expire on Dec. 31, 2001, and doesn't apply to graduate classes. Under the chairman's mark, this exclusion would become permanent and would apply to graduate classes.

**Improving local options for the construction and renovation of public schools.** The law limits the ability of state and local governments to profit from their investment of bond proceeds because bonds are exempt from federal taxes. One exception is governments that issue no more than \$5 million of governmental bonds in a calendar year. The \$5 million limit is increased to \$10 million if at least \$5 million is used to finance public schools. The chairman's mark increases the exception to \$15 million, provided that at least \$10 million is used to finance public schools.

Under current law, state and local governments in limited situations can provide tax-exempt financing for private parties such as charitable organizations, but not to finance schools owned or operated by a private, for-profit business.

The chairman's mark creates a new category of private activity bonds, with an annual per state volume cap of \$10 per capita or \$5 million, if greater. These bonds could be used to finance elementary and secondary school facilities that are owned by a private, for-profit corporation pursuant to a public-private partnership agreement with the local educational agency. The school facilities would be required to be operated as part of the public school system, and ownership of the facility would have to transfer to the school system at the end of the contract period.

"It'll take all of these steps, and more, to maintain Thomas Jefferson's goal of a well-educated society," Grassley said. "Jefferson was a visionary, but he couldn't have predicted the super-charged, highly technical environment of today's workplaces. It takes a commitment at every level of society to move our children from the chalk board to the circuit board."

